



## Analysis Description

The federal fiscal year (FFY) 2027 Medicare Long-Term Care Hospital (LTCH) Prospective Payment System (PPS) Proposed Rule Impact Analysis is intended to show providers how Medicare LTCH fee-for-service (FFS) payments may change from FFY 2026 to FFY 2027 based on the policies set forth in the FFY 2027 LTCH PPS proposed rule.

### FFY 2027 LTCH Proposed Rule Changes Modeled in This Analysis:

- Market Basket Update: 3.2% increase to account for cost increases in the services furnished by providers.
- ACA-Mandated Productivity Adjustment: -0.8 percentage point (PPT) productivity adjustment to the market basket authorized by the Affordable Care Act (ACA) of 2010.
- Budget Neutrality (including all other budget neutrality): An adjustment of 1.0025505 applied to the standard federal rate to maintain budget neutrality due to changes in the wage index. This includes the budget neutrality impact of the 5% cap on LTCH wage index decreases.
- Wage Index and Labor Share: Updated wage index values based on the FFY 2027 proposed hospital wage index without the application of rural floors or reclassifications; and an increase to the labor share from 72.9% in FFY 2026 to 73.0% in FFY 2027. This impact also includes the result of the 5% cap on any reduction of an eligible hospital's FFY 2027 wage index from the FFY 2026 wage index, which is broken out separately.
- Medicare Severity-Long Term Care-Diagnosis Related Groups (MS-LTC-DRG) Updates: MS-LTC-DRG changes due to updates to the MS-LTC-DRG groupings and weights. The FFY 2026 final and the FFY 2027 proposed MS-LTC-DRG weights are from Table 11 of the CMS FFY 2026 LTCH final rule and the FFY 2027 LTCH proposed rule, respectively, and are used to calculate case-mix indexes.
- Site-Neutral Payments: Impact of applying CMS site-neutral payment adjustments to certain cases no longer deemed eligible for payment under the LTCH PPS. In such cases, hospitals will be paid the lower of 100% of the cost, per diem Inpatient Prospective Payment System (IPPS) amount, or full comparable amount to what would otherwise be paid under IPPS.
- BiBa Discharge Payment Percentage Adjustment: The BiBa of 2018 mandates an IPPS equivalent payment rate for all discharges for LTCHs for which less than 50% of cases were paid at standard LTCH PPS payment in the previous year. For FFY 2027, CMS will calculate discharge payment percentages using FFY 2026 data. This analysis assumes an LTCH will receive the discharge percentage adjustment in FFY 2027 when less than 50% of their cases in the FFY 2027 LTCH proposed rule impact file are flagged as standard LTCH PPS cases. The FFY 2027 proposed rule impact file uses FFY 2025 data, and therefore it is possible that an LTCH may not actually receive the adjustment for FFY 2027. For this reason, two bottom line FFY 2027 payments and percentage impacts over FFY 2026 are provided, one excluding the discharge payment adjustment and one including the adjustment, if applicable. Percentage impacts for the discharge payment percentage adjustment are calculated over FFY 2026 payments, including site-neutral payments as the baseline. No assumptions for LTCHs to receive this adjustment are made for FFY 2026.

The applicable annual update is reduced by 2.0 PPTs for any LTCH that fails to meet the LTCH Quality Reporting Program (QRP) data submission requirements. The impacts shown in the table do not include this reduction. An estimated impact is provided for FFY 2027 LTCH standard payment cases for if a LTCH would be subject to this reduction.

The values shown in the impact table do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress to end in FFY 2033. The estimated sequestration reduction applicable to LTCH PPS-specific payment has been calculated separately based on estimated FFY 2027 payments without the discharge percent adjustment and is provided at the bottom of the impact table.

## Data Sources

Estimated FFYs 2026 and 2027 LTCH PPS payments are calculated using individual LTCH characteristics from the FFY 2026 LTCH final rule and the FFY 2027 LTCH proposed rule impact files provided by CMS.

CMS did not provide sufficient information on length-of-stay (LOS) in its public use file to allow for modeling of the site-neutral payment policy. For this analysis, the FFY 2027 LTCH Proposed Rule Medicare Provider Analysis and Review (MedPAR) file, based on FFY 2025 LTCH claims, was used to determine which cases met the LTCH payment rules vs. site-neutral in order to calculate site-neutral adjustment factors. The average LOS is taken from Table 11 of the FFY 2027 LTCH proposed rule.

The estimated FFY 2027 site-neutral PPS payments are calculated using both individual LTCH characteristics and IPPS characteristics from the FFY 2027 LTCH proposed rule Impact File, the FFY 2027 IPPS proposed rule Impact File, and the FFY 2027 LTCH proposed rule MedPAR file.

The standard rates and labor shares for FFYs 2026 and 2027 LTCH PPS payments are from the FFY 2026 LTCH final rule and the FFY 2027 LTCH proposed rule.

The standard rates and labor shares for the FFYs 2026 and 2027 site-neutral PPS payments are from the FFY 2026 IPPS interim final rule and FFY 2027 IPPS proposed rule.

Medicare cases are from the FFY 2027 LTCH proposed rule Impact File and are held constant for FFYs 2026 and 2027. CMS did not provide the FFY 2026 and FFY 2027 Case-mix index (CMI) values for all cases in the FFY 2027 LTCH proposed rule Impact File. Therefore, the FFY 2026 and FFY 2027 all cases CMI are calculated using the FFY 2027 LTCH Proposed Rule MEDPAR file. The CMI values for Standard Payment Rate Cases for FFYs 2026 and 2027 are obtained from the FFY 2027 LTCH proposed rule Impact File.

Wage indexes for LTCH standard payment cases are from the FFY 2026 LTCH final rule and the FFY 2027 LTCH proposed rule impact files and reflect hospital wage index values without the rural floor or reclassifications. Wage indexes, geographic adjustment factor (GAF), and cost of living adjustment (COLA) for site-neutral payments are calculated using the FFY 2026 IPPS interim final rule Table 3 and FFY 2027 IPPS proposed rule Table 3.

All components related to facility operations are held constant (e.g. volume, etc.) in order to measure the impacts of policy changes only.

## Methods

### Calculating Impacts by Component Change

The dollar impact of each component change is calculated by first estimating FFY 2026 payments as if all cases were LTCH standard eligible. Estimated FFY 2026 payments reflect the wage index, labor share, COLA, standard federal amount multiplied by each hospital's appropriate cases and case-mix index. FFY 2026 estimates for site-neutral payments (detailed below) are subtracted from the FFY 2026 LTCH standard payment.

In order to calculate policy changes, site-neutral payments are added back into the FFY 2026 estimated payments. Then, starting from the estimated FFY 2026 payments as if all were LTCH standard eligible, the policy changes to the LTCH rates are applied sequentially. The differences in payments are then calculated. Percent changes by each component change are derived from the resulting changes in payment.

The site-neutral payment component of the analysis is calculated using the CMS criteria for identifying qualifying cases against the FFY 2027 LTCH proposed rule MedPAR file. Each qualifying case is evaluated by comparing the adjusted IPPS comparable per diem payment multiplied by the LTCH LOS to 100% of the cost of the case. The lower of the two is considered the site-neutral payment amount. The site-neutral payment amount is reduced by a budget neutrality factor due to high-cost outliers. A site-neutral payment adjustment factor is then developed for each provider as a ratio of the total site-neutral payment amount per provider and what the total standard LTCH payment amount per provider would be if these cases were eligible for LTCH standard payment. This factor is applied to the estimated FFY 2026 and FFY 2027 payments for each provider in order to develop a site-neutral impact. Finally, a discharge percentage adjustment FFY 2027 payment is developed for each applicable provider by calculating all discharges as if they were paid at the IPPS equivalent rate.

The IPPS comparable per diem payment amount is capped at the lower of the IPPS comparable per diem amount and the full comparable amount to what would otherwise be paid under IPPS.

The adjusted IPPS comparable per diem amount includes: the IPPS standard amount, IPPS MS-DRG weight, IPPS labor share and wage index, Disproportionate Share Hospital (DSH) adjustment, Indirect Medical Education (IME) adjustment, IPPS capital standard amount, GAF, and COLA. The standard LTCH payment was calculated by adjusting the LTCH standard amount by the LTCH labor share and wage index, COLA, and MS-LTC-DRG weight. This value is multiplied by the LOS of each case as well as the average geometric LOS for that case's DRG. The full comparable amount to what would otherwise be paid under IPPS does not include this multiplier.

This analysis does not include impact estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of hospital participation in new payment models being tested under Medicare demonstration/pilot programs. Interrupted stays, where a patient is temporarily discharged to another facility, are also not included in the analysis. This analysis also does not include projections for anticipated decreases in LOS and costs.

Individual percentages and dollars shown in this analysis may not foot to total due to compounding and rounding. Dollar amounts less than \$50 and percentages less than 0.05% will appear as zero due to rounding.